

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of	)	
<b>SEMCO ENERGY GAS COMPANY</b>	)	
for authority to implement its amended energy	)	Case No. U-18179
optimization plan for the 24-month period of	)	
January 2016 through December 2017.	)	
_____	)	

At the August 23, 2017 meeting of the Michigan Public Service Commission in Lansing,  
Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman  
Hon. Norman J. Saari, Commissioner  
Hon. Rachael A. Eubanks, Commissioner

**ORDER APPROVING SETTLEMENT AGREEMENT**

On September 23, 2016, SEMCO Energy Gas Company (SEMCO) filed an application, along with supporting testimony and exhibits, requesting approval of an amended energy optimization plan (EOP) for 2016 and 2017 prepared in accordance with 2008 PA 295, MCL 460.1001 *et seq.* (Act 295). In its December 20, 2016 order, the Commission approved SEMCO's first amended EOP and surcharges for 2016 and 2017.

On March 15, 2017, SEMCO filed a Notice of Intent to file an application for review and approval of its amended EOP and energy waste reduction (EWR) plan.<sup>1</sup> On April 28, 2017,

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<sup>1</sup> The EWR provisions now contained in Act 295 were added by the enactment of 2016 PA 342 (Act 342).

SEMCO filed an application, along with supporting testimony and exhibits, requesting approval of a second amendment to the company's EOP.

A prehearing conference was held on June 8, 2017, before Administrative Law Judge Mark E. Cummins. SEMCO and the Commission Staff participated in the proceedings. Subsequently, the parties submitted a settlement agreement resolving all issues in the case.

According to the terms of the settlement agreement, attached as Exhibit A, the parties agree that the company's second amended EOP and all related surcharges are reasonable, appropriate, in the public interest, and consistent with Act 295, as amended by Act 342. The parties further agree that the company's budget increase to \$7,390,000 is necessary to achieve the minimum energy savings for the maximum financial incentive prorated between the Commission's December 20, 2016 order and the amendments reflecting legislative changes made under Act 342. The parties further agree that SEMCO's proposed amended savings targets, included in Attachment 1 to the settlement agreement, are reasonable and prudent, and consistent with Act 295 and Act 342. In addition, the parties agree that, for the purpose of settling this proceeding, the earned 2017 EWR performance incentive mechanism financial award should be calculated as set forth in Attachment 1 to the settlement agreement. Finally, the parties agree that SEMCO may begin collecting the surcharges established in the second amended EOP for bills rendered on and after September 1, 2017.

The Commission has reviewed the application, testimony, exhibits, and settlement agreement and finds the settlement agreement is reasonable and in the public interest, and therefore should be approved.

THEREFORE, IT IS ORDERED that:

A. The settlement agreement, attached as Exhibit A, is approved.

B. SEMCO Energy Gas Company's second amended energy optimization plan, described in the testimony and exhibits filed in this case, and all related surcharges are reasonable, appropriate, in the public interest, and consistent with 2008 PA 295, as amended by 2016 PA 342.

C. The earned 2017 energy waste reduction performance incentive mechanism financial award shall be calculated as set forth on page 4 of Attachment 1 to this settlement agreement.

D. SEMCO Energy Gas Company may begin collecting the surcharges established in the second amended energy optimization plan, set forth in Attachment 2 to the settlement agreement, for bills rendered on and after September 1, 2017.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so by the filing of a claim of appeal in the Michigan Court of Appeals within 30 days of the issuance of this order, under MCL 462.26. To comply with the Michigan Rules of Court's requirement to notify the Commission of an appeal, appellants shall send required notices to both the Commission's Executive Secretary and to the Commission's Legal Counsel. Electronic notifications should be sent to the Executive Secretary at [mpscedockets@michigan.gov](mailto:mpscedockets@michigan.gov) and to the Michigan Department of the Attorney General - Public Service Division at [pungp1@michigan.gov](mailto:pungp1@michigan.gov). In lieu of electronic submissions, paper copies of such notifications may be sent to the Executive Secretary and the Attorney General - Public Service Division at 7109 W. Saginaw Hwy., Lansing, MI 48917.

MICHIGAN PUBLIC SERVICE COMMISSION

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Sally A. Talberg, Chairman

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Norman J. Saari, Commissioner

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Rachael A. Eubanks, Commissioner

By its action of August 23, 2017.

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Kavita Kale, Executive Secretary

## STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of	)	
<b>SEMCO ENERGY, INC.</b> for authority to	)	
implement its Amended Energy Optimization Plan for	)	Case No. U-18179
the 24-month period of January 2016 through	)	
<u>December 2017.</u>	)	

SETTLEMENT AGREEMENT

Pursuant to Section 78 of the Administrative Procedures Act of 1969, as amended, MCL 24.278 (the "APA"), and Rule 333 of the Rules of the Practice and Procedure Before the Commission, R 460.17333, SEMCO Energy Gas Company (the "Company") and the Michigan Public Service Commission ("Commission") Staff ("Staff"), hereby agree as follows:

1. On November 14, 2013, the Commission issued an order in Case No. U-17362 approving SEMCO Gas's EO plan for the 24-month period of January 2014 through December 2015. On January 13, 2015, the Commission issued an order in Case No. U-17362 allowing SEMCO Energy to amend its EO Plan.

2. On July 1, 2015, SEMCO Gas filed its application, testimony, and exhibits in Case No. U-17790 seeking approval of its EO plan and surcharges for 2016 and 2017. As with its 2014-2015 EO Plan, SEMCO proposed a self-administered EO plan. By order dated December 11, 2015 in Case No. U-17790, the Commission approved SEMCO Gas's EO plan and surcharges for 2016 and 2017.

3. On September 23, 2016, SEMCO Gas filed its application, testimony, and exhibits in Case No. U-18179 seeking approval to amend its EO plan and surcharges for 2016 and 2017. By order dated December 20, 2016 in Case No. U-18179, the

Commission approved SEMCO Gas's First Amended EO plan and surcharges for 2016 and 2017.

4. On March 15, 2017, the Company filed a Notice of Intent to file an application for review and approval of its amended energy optimization and energy waste reduction plan. On April 28, 2017, the Company filed with the Commission an Application, along with the testimony and exhibits of its witnesses Jennifer Dennis, James Van Sickle, and George Phillips, seeking approval of a second amendment to the Company's EO Plan. As detailed in the testimony and exhibits, SEMCO Gas proposed to:

- A. Amend savings targets to reflect first year energy savings rather than lifetime savings goals. The adjusted first year energy saving calculation remains the same as defined in page 2 of Attachment 2 of the Settlement Agreement approved by a December 20, 2016 Commission Order in Case No. U-18179, except that, after April 20, 2017, the Market Transformation bonus has been removed from the calculation.
- B. Adjust energy savings targets to reflect the sum of the currently approved targets identified in the Commission's December 20, 2016 Order in Case No. U-18179 for the period January 1, 2017 through April 19, 2017 and the amended energy savings targets designed to meet both the legislative requirements and the potential incentive awards under 2016 PA 342 for the period April 20, 2017 through December 31, 2017, including the Savings Reduction Factor Adjustment for savings targets as related to

large volume transport customers, as reflected on page 2 of Attachment 1 to this Settlement Agreement.

- C. Identify and receive approval for an increased budget to \$7,390,000 necessary to achieve the minimum energy savings designed to achieve the maximum financial incentive prorated between the Commission's December 20, 2016 Order in Case No. U-18179 and the amendments herein reflecting the legislative changes made under 2016 PA 342.
- D. Approve the surcharges necessary to achieve the increased budget, designated by customer class, and calculated to be collected September through December 2017.
- E. Approve the amended Performance Incentive Mechanism allocating goals and incentive achievement between 2008 PA 295 and 2016 PA 342, outlining the mechanism in which a maximum incentive of \$1,387,814 can be achieved.

5. On June 8, 2017, a prehearing conference was held pursuant to the Commission's Notice of Hearing. The prehearing conference was conducted as a contested case matter pursuant to the APA. Staff and the Company participated in the proceedings—there were no intervenors. At the prehearing conference, the Company presented proof of service of the Notice of Hearing on all cities, incorporated villages, townships, and counties in its service area, and all intervenors in Case No. U-17362. The Company also presented an affidavit evidencing the requisite publication of notice and a proof of service evidencing the requisite mailings.

6. The parties have had extensive discussions, and have agreed to enter into this Settlement Agreement recommending approval of the Company's Second Amended EO Plan. In view of the foregoing, and pursuant to MCL 24.278, the Company and Staff hereby stipulate and agree as follows:

- A. The Company's Second Amended EO Plan, described in the testimony and exhibits filed in this case, and all related surcharges are reasonable, appropriate, in the public interest, and consistent with Public Act 295 of 2008, as amended by 2016 PA 342.
- B. The Company's budget increase to \$7,390,000 is necessary to achieve the minimum energy savings for the maximum financial incentive prorated between the Commission's December 20, 2016 Order in Case No. U-18179 and the amendments reflecting the legislative changes made under 2016 PA 342.
- C. The Company's proposed amended savings targets, included in page 1 of Attachment 1 to the settlement agreement, reflecting first year energy savings, and including a lifetime savings goal of 36,727,233 therms to promote continued investment in long-life energy waste reduction measures, are reasonable and prudent and consistent with 2008 PA 295 and 2016 PA 342.
- D. The Parties agree that, for the purpose of settling this proceeding, the earned 2017 energy waste reduction Performance Incentive Mechanism financial award should be calculated as set forth on page 4 of Attachment 1 to this Settlement Agreement.



E. The surcharges, as set forth in Attachment 2 to the Settlement Agreement are reasonable and prudent, therefore, the Company may begin collecting the surcharges established in the Second Amended EO Plan for bills rendered on and after September 1, 2017.

F. In all other respects, the Company's EO Plan, as the Commission approved in its November 14, 2013, January 13, 2015, and December 20, 2016 Orders remains unchanged.

7. All the signatories agree that this Settlement Agreement is reasonable, in the public interest, and will aid in the expeditious conclusion of this case only.

8. The parties respectfully request that the Commission promptly issue an order accepting and approving this Settlement Agreement. If the Commission issues an order accepting and adopting the Settlement Agreement without modification, no party will appeal, challenge, or contest the Commission's Order accepting and approving this Settlement Agreement. If the Commission does not accept and approve this Settlement Agreement without modification, this Settlement Agreement shall be withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purpose whatsoever.

9. This Settlement Agreement has been made for the sole and express purpose of reaching compromise among the positions of the signatory parties in U-18179 without prejudice to their rights to take new and/or different positions in other proceedings. If the Commission approves this settlement agreement without modification, neither the parties to this settlement agreement nor the Commission shall make any reference to or use of the settlement agreement or the order approving it as a

reason, authority, rationale, or example for taking any action or position or making any subsequent decision in this case or any other cases or proceedings; provided, however, such reference or use may be made to enforce the settlement agreement and order.

10. The Company and Staff jointly recommend that the Commission issue an Order Adopting Settlement Agreement.

11. The stipulations and agreements contained in this Settlement Agreement shall constitute the record needed to support the Commission order in this case.


12. MCL 24.281 is waived.

Dated: August 11, 2017

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Dated: August 11, 2017

  
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SEMCO ENERGY Gas Company  
2017 Energy Waste Reduction Plan  
Energy Savings Target

	Sales Volume (therms)			2017
	2014	2015	2016	Avg 2014-2016 (therms)
Total Actual Sales (therms)	646,378,350	602,814,660	595,334,740	614,842,583
Residential	292,244,740	259,065,500	246,787,740	266,032,660
C&I	167,581,110	146,920,960	145,073,420	153,191,830
Total Transport	186,552,500	196,828,200	203,473,580	195,618,093
Large Volume Transport ( $\geq 100,000$ Mcf)	134,990,190	142,506,650	153,931,020	143,809,287
Savings Reduction Factor % (LVT)	87.79%	86.61%	86.73%	87.04%
Adjusted Total Transport	68,049,192	73,401,236	69,965,431	70,471,953
<b>Total Adjusted Sales (therms)</b>	<b>527,875,042</b>	<b>479,387,696</b>	<b>461,826,591</b>	<b>489,696,443</b>

Weighted First Year Savings Tiers <sup>(1)</sup>	Targets
First Year Savings (0.75% - 0.837%)	3,672,723
First Year Savings (0.838% - 0.925%)	4,103,790
First Year Savings (>.925%)	4,528,015

Savings Weighting <sup>(1)</sup>	0.75%	0.876%	1.00%
110 days in 2017 for PA295	30.14%	0.226%	0.226%
255 days in 2017 for PA342	69.86%	0.524%	0.612%
	0.75%	0.838%	0.925%

Notes:

<sup>(1)</sup> weightings represent the portion of the year that the two different Public Acts, 295 and 342 were effective.

SEMCO ENERGY Gas Company  
2017 Energy Waste Reduction Plan  
Energy Savings Target

	Savings Reduction Factor		
	2014	2015	2016
Transportation Revenue (\$)	11,604,422	13,603,883	13,916,545
Total Transportation Delivery (Dth)	18,655,250	19,682,820	20,347,358
Average GCR Rate (\$/Dth)	4.4711	4.4711	4.4711
Imputed Commodity Revenue (\$)	83,409,488	88,003,857	90,975,072
Imputed Transportation Revenue (\$)	95,013,910	101,607,740	104,891,617
<b>Savings Reduction Factor (%)</b>	<b>87.79%</b>	<b>86.61%</b>	<b>86.73%</b>

SEMCO ENERGY Gas Company  
2017 Energy Waste Reduction Plan  
Energy Savings Target

SEMCO 2017 Amended EWR Plan						
Budget and Savings Targets				2017		
				First Year Therm Savings Target	Lifetime Year Therm Savings Target	Program Budget
<b>Residential</b>	Savings Goals/Budget Caps			1,993,200	19,932,000	\$ 4,990,000
	Current Values for this Portfolio			1,971,328	19,713,255	\$ 4,994,873
	Variance			21,874	218,745	\$ (4,873)
	% of Target			99%	99%	100%
<b>Commercial</b>	Savings Goals/Budget Caps			2,538,800	25,388,000	\$ 2,400,000
	Current Values for this Portfolio			2,757,008	27,570,076	\$ 2,393,148
	Variance			(220,208)	(2,202,076)	\$ 8,852
	Variance %			109%	109%	100%
<b>Total</b>	Savings Goals/Budget Caps			4,530,000	45,300,000	\$ 7,390,000
	Current Values for this Portfolio			4,728,333	47,283,331	\$ 7,388,021
	Variance			(198,333)	(1,983,331)	\$ 1,979
	Variance %			104%	104%	100%

Energy Waste Reduction Portfolio				2017		
Portfolio Category	Program Portfolio	USRCT Results	CCE Results	First Year Therm Savings Target	Lifetime Year Therm Savings Target	Program Budget
<b>Residential</b>	Income Qualified Energy Assistance	2.15	\$ 0.20	113,734	1,137,340	\$ 374,712
	ENERGY STAR Program	0.93	\$ 0.56	3,838	38,375	\$ 23,692
	Home Performance w ENERGY STAR	3.16	\$ 0.14	1,694,298	16,942,980	\$ 3,636,180
	Pilot Programs	2.17	\$ 0.25	99,880	998,800	\$ 249,500
	Educational Services	0.28	\$ 2.49	59,798	597,960	\$ 149,700
	Evaluation			-	-	\$ 143,922
	SEMCO Administration			-	-	\$ 386,362
	<b>Subtotal - Residential Solutions</b>	<b>2.64</b>	<b>\$ 0.17</b>	<b>1,971,328</b>	<b>19,713,255</b>	<b>\$ 4,964,068</b>
<b>Commercial &amp; Industrial</b>	Prescriptive Program	6.38	\$ 0.07	839,755	8,397,550	\$ 777,598
	Custom Program	11.30	\$ 0.04	1,714,309	17,143,086	\$ 1,138,012
	Pilot Programs	5.81	\$ 0.09	126,840	1,268,400	\$ 120,000
	Educational Services	0.76	\$ 0.94	76,104	761,040	\$ 72,000
	Evaluation			-	-	\$ 77,497
	SEMCO Administration			-	-	\$ 208,041
	<b>Subtotal - Business Solutions</b>	<b>7.66</b>	<b>\$ 0.06</b>	<b>2,757,008</b>	<b>27,570,076</b>	<b>\$ 2,393,148</b>
<b>Total Program Portfolio</b>		<b>4.36</b>	<b>\$ 0.11</b>	<b>4,728,333</b>	<b>47,283,331</b>	<b>\$ 7,357,215</b>

NOTE: Cost/Benefit results do not include low income programming

SEMCO ENERGY Gas Company  
2017 Energy Waste Reduction Plan  
Energy Savings Target

Gas Savings Target

Forecasted Year Mcf Savings (a)	Lifetime Adj. Factor (b)	Forecast Lifetime therm Savings (c) = a x b	Weighted 1st Year Savings as % of Sales <sup>(1)</sup> (d)	Statutory Minimum Savings as % of Sales (e)	Statutory Minimum Lifetime therm Savings (f) = (c/d) x e
4,528,015	10	45,280,148	0.925%	0.75%	36,727,233

	Metric Weight	PA 295 Target	PA 342 Target	Combined Target	Weighted Max Incentive <sup>(1,2,3)</sup>
<b>Gas Performance Metrics</b>					
<b>Weighted Lifetime Savings<sup>(1)</sup></b>					
Lifetime Savings (0.75% - 0.837%)	100%	11,068,486	25,658,747	36,727,233	\$1,108,500
Lifetime Savings (0.838% - 9.2%)	100%	11,068,486	31,828,922	42,897,408	\$1,237,572
Lifetime Savings (> 0.92%)	100%	11,068,486	34,211,662	45,280,148	\$1,366,644
<b>Lifetime Savings Weighting</b>					
110 days in 2017 for PA295	30.14%	0.226%	0.226%	0.226%	
255 days in 2017 for PA342	69.86%	0.524%	0.611%	0.699%	
		0.75%	0.837%	0.925%	
<b>Incentive Weighting</b>					
110 days in 2017 for PA295	30.14%	4.52%	4.52%	4.52%	
255 days in 2017 for PA342	69.86%	10.48%	12.23%	13.97%	
		15.00%	16.75%	18.49%	

Notes:

<sup>(1)</sup> weightings represent the portion of the year that the two different Public Acts, 295 and 342 were effective.

<sup>(2)</sup> Actual incentive will be based on the lower of % of investment or net benefit

<sup>(3)</sup> Based on \$7,390,000 investment

M.P.S.C. - No. 1 – Gas  
SEMCO ENERGY GAS COMPANY

Sheet No. D-2.00

**SECTION D  
GAS SALES SERVICE  
SURCHARGES**

Energy Waste Reduction Clause – This clause permits recovery of the actual costs of implementing its approved energy waste reduction plan. This charge is to be on a volumetric basis for all customers. Special contract customers will be billed in the sales and transportation rate class most appropriate to their volumetric throughput.

**Energy Waste Reduction  
Surcharge**

Rate Class		Amount	Order No.
Residential		\$0.2549 per Dth	U-18179
	<u>Up to 9 Dth per Month</u>	<u>Remaining Dth per Month</u>	
GS-1	\$2.0537 per Dth	\$0.0001 per Dth	U-18179
GS-2	\$2.0537 per Dth	\$0.0001 per Dth	U-18179
GS-3	\$2.0537 per Dth	\$0.0001 per Dth	U-18179

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Effective for bills rendered on  
and after  
Issued under authority of the  
Michigan Public Service Commission  
In Case No. U-18179.

M.P.S.C. - No. 1 – Gas  
SEMCO ENERGY GAS COMPANY

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**SECTION E**  
**TRANSPORTATION SERVICE**

**SURCHARGES**

Energy Waste Reduction Clause – This clause permits recovery of the actual costs of implementing its approved energy waste reduction plan. This charge is to be on a volumetric basis for all customers. Special contract customers will be billed in the sales and transportation rate class most appropriate to their volumetric throughput.

Energy Waste Reduction  
Surcharge

<u>Rate Class</u>	<u>Amount</u>	<u>Order No.</u>
	<u>Up to 2500 Dth per Month</u>	<u>Remaining Dth per Month</u>
TR-1	\$0.1105 per Dth	\$0.0001 per Dth U-18179
TR-2	\$0.1105 per Dth	\$0.0001 per Dth U-18179
TR-3	\$0.1105 per Dth	\$0.0001 per Dth U-18179

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